

**NEWCASTLE MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR 1 JULY 2005
TO 30 JUNE 2006**

NEWCASTLE MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended
30 June 2006

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 38, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 20 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

A R Hoosen
Municipal Manager

Date

INDEX

	Page
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Accounting Policies	8
Notes to the Annual Financial Statements	13
Appendix A: Schedule of External Loans	30
Appendix B: Analysis of Property, Plant and Equipment	31
Appendix C: Segmental Analysis of Property, Plant and Equipment	33
Appendix D: Segmental Statement of Financial Performance	34
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	35
Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)	36
Annexure 1: Grant Funding	37

NEWCASTLE MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2006

	Note	2006 R	2005 R
NET ASSETS AND LIABILITIES			
Net assets			
Housing Development Fund	1	286 484 311	289 747 299
Capital replacement reserve		17 426 712	17 068 841
Capitalisation reserve		-	-
Government grant reserve		105 658 036	118 837 422
Self-insurance reserve		49 758 569	44 763 499
Accumulated Surplus/(Deficit)		5 464 345	4 178 640
		108 176 649	104 898 897
Non-current liabilities		29 009 829	13 238 160
Long-term liabilities	2	29 009 829	13 238 160
Current liabilities		128 338 647	187 906 204
Consumer deposits	3	8 914 689	8 669 692
Provisions	4	-	-
Creditors	5	76 726 143	122 461 853
Unspent conditional grants and receipts	6	21 550 841	17 674 041
VAT	7	18 438 103	36 771 323
Current portion of long-term liabilities	2	2 708 871	2 329 295
Total Net Assets and Liabilities		<u>443 832 787</u>	<u>490 891 663</u>
ASSETS			
Non-current assets		256 695 377	224 245 877
Property, plant and equipment	8	216 311 350	191 081 808
Investments	9	30 627 330	19 010 384
Long-term receivables	10	9 756 697	14 153 685
Current assets		187 137 410	266 645 786
Inventory	11	3 811 145	4 041 062
Consumer debtors	12	51 607 759	56 720 984
Other debtors	13	37 737 721	85 716 176
Current portion of long-term receivables	10	784 049	2 305 126
Call investment deposits	14	71 003 275	105 216 582
Bank balances and cash	15	22 193 461	12 645 856
Total Assets		<u>443 832 787</u>	<u>490 891 663</u>

NEWCASTLE MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 R	2005 R
REVENUE			
Property rates	16	112 866 169	103 320 603
Property rates - penalties imposed and collection charges		2 176 003	1 813 921
Service charges	17	195 991 035	165 680 515
Service charges - other		2 183 418	1 875 946
Rental of facilities and equipment		2 883 462	2 855 254
Interest earned - external investments		4 211 146	7 130 381
Interest earned - outstanding debtors		698 919	638 229
Fines		3 643 164	3 879 144
Licences and permits		167 978	226 458
Income from agency services		6 547 207	39 465
Government grants and subsidies	18	99 721 648	45 008 637
Other income		2 827 945	13 527 671
Gains on disposal of property, plant and equipment		-	80 000
Total Revenue		433 918 094	346 076 224
EXPENDITURE			
Employee related costs	19	82 763 154	69 512 697
Remuneration of Councillors	20	7 956 964	6 352 145
Bad debts		11 622 373	17 023 440
Collection costs		4 834 449	3 784 138
Depreciation		19 458 053	16 026 885
Repairs and maintenance		26 462 822	25 410 203
Interest paid	21	1 273 939	2 874 957
Bulk purchases	22	102 803 073	99 874 745
Contracted services		1 766 091	1 838 625
Grants and subsidies paid	23	12 682 854	11 781 879
General expenses		136 498 297	66 747 941
Loss on disposal of property, plant and equipment		-	-
Total Expenditure		408 122 068	321 227 655
SURPLUS/(DEFICIT) FOR THE YEAR		25 796 026	24 848 569

Refer to Appendix E(1) for the comparison with the approved budget

NEWCASTLE MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2006

	<u>Pre-GAMAP Reserves and Funds</u> R	<u>Housing Development Fund</u> R	<u>Capital Replacement Reserve</u> R	<u>Capitalisation Reserve</u> R	<u>Government Grant Reserve</u> R	<u>Self- Insurance Reserve</u> R	<u>Accumulated Surplus/ (Deficit)</u> R	<u>Total</u> R
2005								
Balance at 1 July 2004	197 187 462	8 934 198	-	-	-	-	6 444 281	212 565 941
Implementation of GAMAP (Note 24)	(197 187 462)	6 613 605	-	124 773 126	28 892 876	4 230 783	171 861 654	139 184 582
Restated balance	-	15 547 803	-	124 773 126	28 892 876	4 230 783	178 305 935	351 750 523
Surplus for the year							24 848 569	24 848 569
Transfer to CRR							(6 262 553)	-
PPE purchased							6 262 553	-
Capital grants used to purchase PPE							(19 485 294)	-
GAMAP Adjust. – transfers to Uthukela Water							(86 186 016)	(86 851 793)
Contribution to Insurance Reserve							597 854	-
Insurance claims processed							(597 854)	-
Transfer to Housing Development Fund							(649 997)	-
Offsetting of depreciation							(1 521 038)	-
Balance at 30 June 2005	-	17 068 841	-	118 837 422	44 763 499	4 178 640	104 898 897	289 747 299
2006								
Correction of error (Note 25)							2 822 091	-
Restated balance	-	17 068 841	-	(2 822 091)	116 015 331	44 763 499	4 178 640	107 720 988
Surplus for the year							25 796 026	25 796 026
Transfer to CRR							(1 498 386)	-
PPE purchased							1 498 386	-
Capital grants used to purchase PPE							(9 347 661)	-
Contribution to Insurance Reserve							1 292 640	1 292 640
Insurance claims processed							(6 935)	(6 935)
Transfer to Housing Development Fund								357 871
Offsetting of depreciation								
Prior year adjustments							14 709 886	-
Additional contribution to bad debt provision							(85 001)	(85 001)
Transfer of water appropriation balances to Uthukela Water Investment							(70 646 987)	(70 646 987)
Write off of VAT							14 982 060	14 982 060
Balance at 30 June 2006	-	17 426 712	-	105 658 036	49 758 569	5 464 345	108 176 649	286 484 311

NEWCASTLE MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 R	2005 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		429 164 036	434 794 273
Cash paid to suppliers and employees		(423 450 714)	(419 576 676)
Cash generated from operations	26	5 713 322	15 217 597
Interest received		4 910 065	7 768 610
Interest paid		(1 273 939)	(2 874 957)
NET CASH FROM OPERATING ACTIVITIES		9 349 448	20 111 250
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(44 712 511)	(36 518 471)
Proceeds on disposal of property, plant and equipment		-	80 000
Decrease/ (increase) in non-current receivables		5 918 065	(6 617 804)
Increase in non-current investments		(11 616 946)	(15 642 371)
Decrease in call investment deposits		34 213 307	29 147 237
NET CASH FROM INVESTING ACTIVITIES		(16 198 085)	(29 551 409)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans raised		16 151 245	13 933 768
Increase in consumer deposits		244 997	1 252 124
NET CASH FROM FINANCING ACTIVITIES		16 396 242	15 185 892
NET INCREASE IN CASH AND CASH EQUIVALENTS		9 547 605	5 745 733
Cash and cash equivalents at the beginning of the year		12 645 856	6 900 124
Cash and cash equivalents at the end of the year	27	22 193 461	12 645 856

**NEWCASTLE MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention

In accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003), the Municipality has adopted Standards of GAMAP and GRAP issued by the Accounting Standards Board, GAMAP and GRAP standards are fundamentally different to the fund accounting policies adopted in previous financial years. Comparative amounts have been restated retrospectively to the extent possible. The effect of the change in accounting policy arising from the implementation of GAMAP and GRAP is set out in Note 24.

The Municipality may have transactions, events or balances that are outside the ambit of GAMAP and GRAP but which are included in Standards of International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants – Public Sector Committee, International Accounting Standards (IAS) issued by the International Accounting Standards Board or Generally Accepted Accounting Practice issued by the South African Accounting Practices Board and the South African Institute of Chartered Accountants. The Municipality has not complied with the measurement, recognition and disclosure requirements of those accounting standards.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GAMAP or GRAP.

2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

4. HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

5. RESERVES

5.1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

The amount transferred to the CRR is based on the municipality's need to finance future capital projects included in the Integrated Development Plan, subject to affordability in the budget process.

Interest earned on the CRR investment is recorded as interest earned in the Statement of Financial Performance and may be appropriated to the CRR in accordance with council policy.

The CRR may only be utilised for the purpose of purchasing / construction of items of property, plant and equipment and may not be used for the maintenance of these items.

5.2 Capitalisation Reserve

On the implementation of GAMAP/GRAP, the balance on certain legislated funds, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a Capitalisation Reserve instead of the accumulated surplus/(deficit) in terms of a directive issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit).

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/(deficit).

NEWCASTLE MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

5.2 Capitalisation Reserve (continued)

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/(deficit).

5.3 Government Grant Reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit)

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/(deficit).

5.4 Self-Insurance Reserve

The Municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims. The Self-Insurance Reserve is reinstated or increased by a transfer from the accumulated surplus/(deficit). The balance of the self-insurance fund is invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, is stated at cost, less accumulated depreciation, which are revalued as indicated below. Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives. Similarly, land is not depreciated as it is deemed to have an indefinite life.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

Where impaired land and buildings are revalued, the increase in value of land and buildings are recognised as revenue to the extent that it reverses the impairment loss previously recognised as an expense.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. Incomplete construction is stated at historic cost. Depreciation only commences when the asset is brought into use. The annual depreciation rates are based on the following estimated asset lives:-

	Years		Years
Buildings	20	Other	
Infrastructure		Office equipment	5
Airports	20	Furniture and fittings	5
Reservoirs and Tanks	20	Bins and containers	5
Roads	15	Emergency equipment	5
Electricity	15	Motor vehicles	5-7
Water	15	Plant and equipment	5-7
Sewerage	15	Other	5
Service connections	15		
Community Assets			
Recreation facilities	5		
Security system	5		
Parks and gardens	15		
Dams	5-15		
Cemeteries	5-15		
Community centres	5-20		
Libraries	15-20		

**NEWCASTLE MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

7. INVESTMENTS

7.1 Financial Instruments

Financial instruments, which include, fixed deposits and short-term deposits invested in registered commercial banks, are stated at cost.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

7.2 Investment in Municipal Entities

Investments in municipal entities under the ownership control and or effective control of the Municipality are carried at cost. Separate consolidated financial statements are prepared to account for the Municipality's share of net assets and post-acquisition results of these investments.

8. INVENTORIES

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average method.

Cost of inventories comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to its present location and condition.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

9. ACCOUNTS RECEIVABLE

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

10. TRADE CREDITORS

Trade creditors are stated at their fair value.

11. REVENUErecognition

11.1 Revenue from Exchange Transactions

Service charges relating to electricity and water are based on consumption. Meters are read on a periodic basis and revenue is recognised when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. These are areas within the municipality where an un-metered water tariff is applied based on estimated consumption as per promulgated tariffs. Revenue for these is recognised when invoiced.

Interest and rentals are recognised on a time proportion basis.

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment. Interest may be transferred from the accumulated surplus to the Capital Replacement Reserve (CRR), the Housing Development Fund

Income in respect of housing rental and instalments is accrued monthly in terms of the agreement.

Dividends are recognised when the Municipality's right to receive payment is established.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Revenue from the sale of goods is recognised when the risk is passed to the consumer.

**NEWCASTLE MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

11.2 Revenue from non-exchange transactions

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Revenue from spot fines and summonses is recognised when payment is received.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment are brought into use.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

12. CONDITIONAL GRANTS AND RECEIPTS

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

13. PROVISIONS

Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at year end and adjusted to reflect the current best estimate.

14. CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise of cash on hand and cash with banks.

15. COMPARATIVE INFORMATION

15.1 Current year comparatives

Budgeted amounts have been included in the annual financial statements for the current financial year only.

15.2 Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

16. LEASES

The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent and the corresponding liabilities are raised. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.

The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

**NEWCASTLE MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

17. EMPLOYEE BENEFITS

17.1 Retirement benefits

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. Surcharges are payable monthly in terms of the fund's actuarial valuation and annual reviews. Due to the actuarial valuation of the fund being performed as a whole and not only in respect of the Newcastle Municipality's pensioners, the individual overall liability with regard to the Municipality has not yet been determined.

17.2 Medical Aid: Continued Members

The municipality provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the municipality for the remaining portion.

These contributions are charged to the operating account when paid. An actuarial valuation has not yet been performed in order to determine the Municipality's future liability. Once such valuation has been performed, the liability will be brought into account over a number of years.

17.3 Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. Provision is based on the total accrued leave days at year end.

18. BORROWING COSTS

Borrowing costs are recognised as an expense in the Statement of Financial Performance.

19. RELATED PARTY TRANSACTIONS

The following related party transactions have occurred for the period under review:

uThukela Water (Pty) Ltd.

Contribution to expenditure of the entity	R28 181 596
Income from services rendered	R 2 594 274
Debtors	Nil

There is no provision for bad/doubtful debts, nor was there any write-off during the year, with regard to this entity.

Waste Works Newcastle

Payments for services rendered	R 3 191 740
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Councillors and Senior Management

Income from services rendered has not been calculated, however the only income received from the Councillors and Senior Management is in terms of the approved Tariff of Charges in line with normal service delivery.

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R	2005 R
1. HOUSING DEVELOPMENT FUND		
Housing Development Fund	17 426 712	17 068 841
Unappropriated Surplus	7 567 245	7 209 374
Loans extinguished by Government on 1 April 1998	9 859 467	9 859 467
The Housing Development Fund is represented by the following assets and liabilities		
Housing deposits (see note 3)	54 436	53 911
Housing selling scheme loans (see note 10)	3 470 954	3 819 142
Housing Rental Debtors (see note 12)	709 648	746 054
Investments	44 108 464	74 192 213
Bank and cash	13 191 674	12 723 765
Sub-total	61 535 176	91 535 085
Creditors (see note 5)	(44 108 464)	(74 192 213)
External loans	-	(274 031)
Total Housing Development Fund Assets and Liabilities	17 426 712	17 068 841
2. LONG-TERM LIABILITIES		
DBSA	29 421 523	12 741 059
Annuity Loans	43 415	65 673
Capitalised Lease Liability	2 253 762	2 486 692
Government Loans : Other	-	274 031
Sub-total	31 718 700	15 567 455
Less : Current portion transferred to current liabilities	(2 708 871)	(2 329 295)
DBSA	(2 131 352)	(1 663 564)
Annuity Loans	(23 853)	(22 093)
Capitalised Lease Liability	(553 666)	(627 573)
Government Loans : Other	-	(16 065)
Total External Loans	29 009 829	13 238 160
Refer to Appendix A for more detail on long-term liabilities		
3. CONSUMER DEPOSITS		
Electricity and Water	8 663 662	8 454 840
Housing	54 436	53 911
Other	196 591	160 941
Total Consumer Deposits	8 914 689	8 669 692
Guarantees held in lieu of Electricity and Water Deposits	4 777 654	4 760 904

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R	2005 R
4. PROVISIONS		
Leave provision	-	-
The movement in current provisions are reconciled as follows:		
Balance at beginning of year	8 067 729	8 705 638
Other revenue	-	3 767 550
Contributions to provision	4 100 000	3 590 510
Expenditure incurred	(4 474 612)	(7 995 969)
Transferred to creditors	(7 693 117)	(8 067 729)
Balance at end of year	-	-
5. CREDITORS		
Trade creditors	6 210 390	24 439 566
Payments received in advance	6 119 621	6 722 821
Insurance	391 092	526 616
Other creditors	12 203 459	8 512 908
Housing creditors	44 108 464	74 192 213
Staff leave	7 693 117	8 067 729
Total Creditors	76 726 143	122 461 853
6. UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
6.1 Conditional Grants from other spheres of Government	16 094 820	12 918 686
6.2 Other Grant Receipts	5 456 021	4 755 355
Total Conditional Grants and Receipts	21 550 841	17 674 041
Refer to Note 18 and Annexure 1 for more detail on conditional grants and receipts		
7. VAT		
VAT payable	18 438 103	36 771 323
VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.		

NEWCASTLE MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

8. PROPERTY, PLANT AND EQUIPMENT

30th June 2006

Reconciliation of Carrying Value	<u>Land and Buildings</u>	<u>Infra- structure</u>	<u>Community</u>	<u>Heritage</u>	<u>Other</u>	<u>Total</u>
	R	R	R	R	R	R
	68 388 104	81 391 329	13 781 626	359 068	27 161 681	191 081 808
Carrying values at 1 July 2005						
Cost	82 283 024	177 748 542	23 418 816	359 068	81 287 912	365 097 363
Accumulated depreciation	(13 894 921)	(96 357 213)	(9 637 190)	-	(54 126 230)	(174 015 555)
Acquisitions	20 915 439	16 329 984	195 977	-	7 271 111	44 712 511
Capital under Construction	-	-	-	-	-	-
Depreciation	(1 829 111)	(9 479 557)	(1 048 388)	-	(7 100 997)	(19 458 053)
Carrying value of disposals	-	-	(24 915)	-	-	(24 915)
Cost/revaluation	-	-	(24 915)	-	-	(24 915)
Accumulated depreciation	-	-	-	-	-	-
Carrying values at 30 June 2006	87 474 432	88 241 755	12 904 300	359 068	27 331 796	216 311 350
Cost	103 198 463	194 078 526	23 589 878	359 068	88 559 023	409 784 958
Accumulated depreciation	(15 724 032)	(105 836 771)	(10 685 578)	-	(61 227 227)	(193 473 608)

30th June 2005

Reconciliation of Carrying Value	<u>Land and Buildings</u>	<u>Infra- structure</u>	<u>Community</u>	<u>Heritage</u>	<u>Other</u>	<u>Total</u>
	R	R	R	R	R	R
	71 069 754	144 976 972	27 297 457	359 068	29 846 132	273 549 383
Carrying values at 1 July 2004						
Cost	84 836 233	252 843 308	39 082 421	359 068	80 870 950	457 991 980
Accumulated depreciation	(13 766 479)	(107 866 336)	(11 784 964)	-	(51 024 818)	(184 442 597)
Acquisitions	6 364 408	26 162 017	683 019	-	3 309 027	36 518 471
Capital under construction	-	-	-	-	-	-
Depreciation	(650 175)	(10 237 561)	(1 593 971)	-	(3 545 178)	(16 026 885)
Carrying value of disposals	(8 395 882)	(79 510 099)	(12 604 880)	-	(2 448 300)	(102 959 161)
Cost/revaluation	(8 917 616)	(101 256 783)	(16 346 624)	-	(2 892 066)	(129 413 089)
Accumulated depreciation	521 734	21 746 683	3 741 744	-	443 766	26 453 927
Carrying values at 30 June 2005	68 388 104	81 391 329	13 781 626	359 068	27 161 681	191 081 808
Cost	82 283 024	177 748 542	23 418 816	359 068	81 287 912	365 097 363
Accumulated depreciation	(13 894 921)	(96 357 213)	(9 637 190)	-	(54 126 230)	(174 015 555)

The Municipality has taken advantage of the transitional provisions set out in GAMAP 17. The Municipality is in the process of itemizing all infrastructure and community assets and will recalculate accumulated depreciation once this exercise has been completed by 30 June 2007. At present depreciation on these assets is calculated on an averaging basis whereby an average useful life has been estimated for each category of infrastructure and community assets, using global historical costs recorded in the accounting records. Furthermore, the Municipality has not assessed whether the items of property, plant and equipment are impaired. It is expected that an assessment of impairments will be done by 30 June 2007.

NEWCASTLE MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R	2005 R
9. INVESTMENTS		
<u>Unlisted</u>		
Investment in Municipal Entities – Uthukela Water	30 627 330	18 736 353
Housing Advance	-	274 031
Total Investments	30 627 330	19 010 384
Municipal entities under sole or shared control of the municipality during the year	Sole control	% Control
Uthukela Water	No	45.6
Uphahlala Housing Management Group	No	0
Waste Works Newcastle	Yes	100
10. LONG-TERM RECEIVABLES		
Land Sales	277 812	5 597 203
Car loans	1 061 445	2 206 156
Staff housing loans	23 962	29 781
Study loans and bursaries	1 711 899	536 839
Loan to municipal entity	3 994 674	4 269 691
Housing selling scheme loans	3 470 954	3 819 142
Less : Current portion transferred to current receivables	784 049	2 305 126
Total Receivables	9 756 697	14 153 685

CAR LOANS

Staff who participate in the car allowance scheme were entitled to car loans, attracting interest at 8% per annum and repayable over a maximum period of five years. In terms of the Municipal Finance Management Act, No. 56 of 2003, no new loans have been granted since 1 July 2006.

LAND SALES

Public purchasing property from Council were able to settle the purchase price over a period of twelve months at the prime interest rate of Council's bankers at the date of purchasing the property. These loans are no longer allowed in terms of the Municipal Finance Management Act, No. 56 of 2003, and all property is now sold for payment to be effected on or before date of registration of transfer. The transaction is initiated when the sale agreement is signed and finalised on date of registration of transfer in the purchaser's name when full payment of the purchase price is effected.

STUDY LOANS

Dependants of staff were entitled to a low interest loan for study purposes. Since 1 July 2004 new agreements have not been concluded due to the requirements of the Municipal Finance Management Act, No. 56 of 2003. The agreements concluded prior to 1 July 2004 are the only transactions still being processed.

NEWCASTLE MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

2006	2005
R	R

LOANS TO MUNICIPAL ENTITY

The loan to the municipal entity was obtained from the Development Bank of Southern Africa and is for the installation of water meters in areas previously having none. The loan is repayable by the entity on the same terms and conditions as imposed by the Development Bank of Southern Africa on the Municipality.

HOUSING SCHEME LOANS

Housing loans were granted to qualifying individuals in terms of the Housing Act, No. 107 of 1997. These loans attract interest at 13,5% per annum and are repayable over thirty years. No new loans have been granted since 1 July 2004.

11. INVENTORY

Consumable stores	3 811 145	4 041 062
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12. CONSUMER DEBTORS

	Gross Balances	Provision for Bad Debts	Net Balances
As at 30 June 2006			
Service debtors	190 333 157	145 386 706	44 946 451
Rates	76 869 977	62 038 617	14 831 360
Electricity	13 378 255	1 453 633	11 924 622
Water	44 070 918	34 507 844	9 563 074
Sewerage	11 270 602	8 963 627	2 306 975
Refuse	44 743 405	38 422 985	6 320 420
Housing rentals	716 752	7 104	709 648
VAT and Sundry services	23 574 400	17 622 740	5 951 660
Total	214 624 309	163 016 550	51 607 759

As at 30 June 2005

	Gross Balances	Provision for Bad Debts	Net Balances
As at 30 June 2005			
Service debtors	174 047 076	69 292 074	104 755 002
Rates	72 526 445	27 716 830	44 809 615
Electricity	12 647 419	4 850 445	7 796 974
Water	43 706 082	15 937 177	27 768 905
Sewerage	10 266 625	4 157 524	6 109 101
Refuse	34 900 505	16 630 098	18 270 407
Housing rentals	746 054	-	746 054
VAT and Sundry services	18 731 951	14 048 962	4 682 989
Less Uthukela Water debtors transferred to Other debtors	(53 463 061)	-	(53 463 061)
Total	140 062 020	83 341 036	56 720 984

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R	R

12. CONSUMER DEBTORS (continued)

Rates: Ageing

Current	6 958 701	6 163 769
30 Days	2 838 838	2 418 783
60 Days	2 648 761	2 220 251
90 Days	2 385 060	2 121 937
120 Days and more	<u>62 038 617</u>	<u>59 601 704</u>
Total	<u>76 869 977</u>	<u>72 526 445</u>

(Electricity, Water, Sewerage and Refuse): Ageing

Current	21 142 514	18 593 009
30 Days	10 076 355	4 343 149
60 Days	12 531 108	3 864 985
90 Days	6 342 946	3 555 798
120 Days and more	<u>63 370 257</u>	<u>71 163 689</u>
Less Uthukela Water debtors	-	(53 463 061)
Total	<u>113 463 180</u>	<u>48 057 569</u>

Vat and Sundry: Ageing

Current	(733 876)	(591 819)
30 Days	2 449 994	887 486
60 Days	2 605 525	2 173 642
90 Days	1 630 016	1 799 264
120 Days and more	<u>17 622 741</u>	<u>14 463 378</u>
Total	<u>23 574 400</u>	<u>18 731 951</u>

Housing rentals: Ageing

Current	(380 941)	(357 823)
30 Days	561 813	572 624
60 Days	476 533	511 448
90 Days	52 243	19 728
120 Days and more	<u>7 104</u>	<u>76</u>
Total	<u>716 752</u>	<u>746 054</u>

Reconciliation of the bad debt provision

Balance at beginning of the year	83 341 036	90 735 185
Contributions to provision	84 989 109	28 783 754
Bad debts written off against provision	(5 756 865)	(36 510 185)
Reversal of provision	461 655	332 282
Adjustment to provision	(18 385)	-
Balance at end of year	<u>163 016 550</u>	<u>83 341 036</u>

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R	2005 R
13. OTHER DEBTORS		
Sundry debtors	25 316 657	11 207 096
Other debtors	803 569	1 085 866
Debtors suspense	5 497 873	13 237 332
Receipts in advance	6 119 622	6 722 821
Uthukela Water debtors	-	53 463 061
	<u>37 737 721</u>	<u>85 716 176</u>

14. CALL INVESTMENT DEPOSITS

Call accounts	40 891 064	76 870 551
Money market	30 112 211	28 346 031
Total	<u>71 003 275</u>	<u>105 216 582</u>

15. BANK BALANCES AND CASH

The Municipality has the following bank account: -

Cheque Account (Primary Bank Account)

First National Bank - Newcastle Branch - Account Number
53140035974

Cash book balance at beginning of year	(3 637 486)	5 097 209
Cash book balance at end of year	<u>18 099 719</u>	<u>(3 637 486)</u>
Bank statement balance at beginning of year	29 058 860	20 256 420
Bank statement balance at end of year	<u>49 784 049</u>	<u>29 058 860</u>

Refer to Note 27 for total cash and cash equivalents

16. PROPERTY RATES

Actual

Residential	32 616 385	36 831 567
Commercial	39 909 956	36 215 485
State	2 337 025	2 185 041
Industrial	4 722 202	4 021 216
Vacant	7 787 981	-
Rate levies – Madadeni and Osizweni	<u>25 494 619</u>	<u>24 067 294</u>
Total Assessment Rates	<u>112 868 169</u>	<u>103 320 603</u>

Property Valuations

Residential	61 017 750	74 741 945
Commercial	72 943 260	73 134 235
State	4 326 325	4 326 325
Industrial	8 076 810	8 104 660
Vacant	15 869 600	-
Total Property Valuations	<u>162 233 745</u>	<u>160 307 165</u>

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R	2005 R
17. SERVICE CHARGES		
Sale of electricity	163 879 453	136 636 755
Refuse removal	31 980 992	28 686 329
Sewerage and sanitation charges	130 590	357 431
Other	<u>2 183 418</u>	<u>1 875 946</u>
Total Service Charges	<u>198 174 453</u>	<u>167 556 461</u>

18. GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	73 899 621	25 523 343
Conditional grants: Conditions met – transferred to revenue	25 822 027	19 485 294
Total Government Grant and Subsidies	<u>99 721 648</u>	<u>45 008 637</u>

18.1 Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members in terms of the indigent register. Households with a total monthly income less than R800 (2005: R800) may apply to be registered as indigent.

18.2 Conditional grants

Balance unspent at beginning of year	12 918 686	14 802 440
Current year receipts	26 839 224	25 273 956
Less transfer to Uthukela Water	-	(7 672 416)
Conditions met - transferred to revenue	<u>(23 663 090)</u>	<u>(19 485 294)</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>16 094 820</u>	<u>12 918 686</u>

These grants are used for capital and operating expenditure

18.3 Other grant receipts

Balance unspent at beginning of year	4 755 355	4 723 293
Current year receipts	2 859 603	32 062
Conditions met - transferred to revenue	<u>(2 158 937)</u>	<u>-</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>5 456 021</u>	<u>4 755 355</u>

These grants are used for capital and operating expenditure

18.4 Conditional grants

Balance unspent at beginning of year	17 674 041	19 525 733
Current year receipts	29 698 827	25 306 018
Less expenditure	<u>(25 822 027)</u>	<u>(27 157 710)</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>21 550 841</u>	<u>17 674 041</u>

Refer to Annexure 1 for more information on Government grants and subsidies

NEWCASTLE MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R	2005 R
19. EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and Wages	65 506 314	62 147 823
Employee related costs - Contributions for UIF, pensions and medical aids	18 577 732	17 323 323
Travel, motor car, accommodation, subsistence and other allowances	735 649	623 026
Housing benefits and allowances	9 798 819	9 481 694
Overtime payments	5 217 766	5 009 766
Performance bonus	-	-
Long-service awards	17 414	4 006
Less other employee costs	(17 090 540)	(25 076 941)
Total Employee Related Costs	82 763 154	69 512 697

Remuneration of the Municipal Manager

Annual Remuneration	412 861	381 041
Performance Bonuses	-	-
Car Allowance	236 576	236 575
Contributions to UIF, Medical and Pension Funds	114 389	98 665
Total	763 826	716 281

Remuneration of the Chief Finance Officer

Annual Remuneration	290 911	271 625
Performance Bonuses	0	0
Car Allowance	113 383	102 442
Contributions to UIF, Medical and Pension Funds	88 009	77 258
Total	492 303	451 325

Remuneration of Individual Executive Directors

	<u>Infrastructural</u>	<u>Administration</u>	<u>Community</u>
	<u>Services</u>	<u>Services</u>	<u>Services</u>
	R	R	R
30 June 2006			
Annual Remuneration	241 233	295 679	295 679
Performance Bonuses	-	-	-
Car Allowance	135 000	115 094	105 133
Medical and pension funds	21 267	89 253	74 585
Total	397 500	500 026	475 397

Note: Remuneration for Infrastructural Services is only for 9 months

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R	2005 R	
<i>Remuneration of Individual Executive Directors (continued)</i>			
	<u>Human Resources</u> R	<u>Deputy Municipal Manager</u> R	<u>Housing and Land</u> R
30 June 2006			
Annual Remuneration	269 457	424 923	269 457
Performance Bonuses	-	-	-
Car Allowance	111 265	120 000	103 309
Medical and pension funds	80 817	99 753	46 955
Total	461 539	644 676	419 721
	<u>Town Planning</u> R	<u>Economic Development</u> R	<u>Culture and Recreational Amenities</u> R
30 June 2006			
Annual Remuneration	269 457	294 901	269 456
Performance Bonuses	-	-	-
Car Allowance	115 094	103 309	105 133
Medical and pension funds	83 945	80 348	73 815
Total	468 496	478 558	448 404
	<u>Infrastructural Services</u> R	<u>Administration Services</u> R	<u>Community Services</u> R
30 June 2005			
Annual Remuneration	-	279 533	279 533
Performance Bonuses	-	-	-
Car Allowance	-	74 982	105 133
Medical and pension funds	-	-	59 015
Total	-	354 515	443 681
	<u>Human Resources</u> R	<u>Deputy Municipal Manager</u> R	<u>Housing and Land</u> R
30 June 2005			
Annual Remuneration	254 678	375 422	254 678
Performance Bonuses	-	-	-
Car Allowance	103 309	120 000	103 309
Medical and pension funds	67 920	86 233	338 864
Total	425 907	581 655	696 851

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Remuneration of Individual Executive Directors (continued)

	<u>Town</u> <u>Planning</u>	<u>Economic</u> <u>Development</u>	<u>Culture and</u> <u>Recreational</u> <u>Amenities</u>
	R	R	R
30 June 2005			
Annual Remuneration	254 678	275 014	254 678
Performance Bonuses	-	-	-
Car Allowance	104 154	103 309	105 133
Medical and pension funds	76 413	71 558	61 140
Total	435 245	449 881	420 951

20. REMUNERATION OF COUNCILLORS

	2006 R	2005 R
Executive Mayor	406 526	312 487
Deputy Executive Mayor	33 614	263 944
Speaker	33 614	263 944
Mayoral Committee Members	2 202 144	1 751 106
Councillors	5 213 597	3 294 663
Councillors' pension contribution	67 469	466 001
Total Councillors' Remuneration	7 956 964	6 352 145

The salaries, allowances and benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution.

21. INTEREST PAID

Long-term liabilities	1 273 939	2 874 957
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22. BULK PURCHASES

Electricity	102 803 073	99 874 745
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23. GRANTS AND SUBSIDIES PAID

Rates rebate	12 682 854	11 781 879
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NEWCASTLE MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

2006	2005
R	R

**CHANGE IN ACCOUNTING POLICY - IMPLEMENTATION OF
24. GAMAP**

The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GAMAP: -

24.1 Statutory Funds

Balance previously reported: -

Capital Development Fund	154 288 398
Public Improvement Fund	40 642 159
Trust Funds	2 256 905
Total	<u>197 187 462</u>

Implementation of GAMAP

Transfer to the Housing Development Fund	1 545 191
Transferred to the Capital Replacement Reserve	-
Transferred to the Capitalisation Reserve	124 773 126
Transferred to Accumulated Surplus (see 24.6 below)	70 869 145
Total	<u>197 187 462</u>

24.2 Loans Redeemed and Other Capital Receipts

Balance previously reported

289 219 359

Implementation of GAMAP

Transferred to Government Grant Reserve	28 892 876
Transferred to Accumulated Surplus (see 24.6 below)	260 326 483
Total	<u>289 219 359</u>

24.3 Provisions and Reserves

Balance previously reported

Self Insurance Reserve	4 230 783
Housing Development Fund	5 068 414
Leave Pay Provision	8 705 637
Study Loans Reserve	1 343 369
Loan Redemption Provision	3 078 532
Surpluses and Deficits Provision	17 866
Audit Fee Provision	89 777
Total	<u>22 534 378</u>

Implementation of GAMAP

Transferred to Accumulated Surplus (see 24.6 below)

4 529 544

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R	R
CHANGE IN ACCOUNTING POLICY – IMPLEMENTATION OF GAMAP (Continued)		

24.4 Property, plant and equipment

Balance previously reported	<u>437 412 902</u>
Implementation of GAMAP	
Credited to Accumulated Surplus (see 24.6 below)	20 579 079
Total	<u>457 991 981</u>

24.5 Accumulated Depreciation

Balance previously reported	<u>-</u>
Implementation of GAMAP	
Backlog depreciation: Land and buildings	(13 766 479)
Backlog depreciation: Infrastructure	(107 866 336)
Backlog depreciation: Community	(11 784 964)
Backlog depreciation: Other	(51 024 818)
Backlog depreciation: Housing Development Fund	-
Total (debited to Accumulated Surplus (see 24.6 below))	<u>(184 442 597)</u>

24.6 Accumulated Surplus

Implementation of GAMAP	
Excessive provisions and reserves no longer permitted (see 24.3 above)	4 529 544
Transferred from statutory funds (see 24.1 above)	70 869 145
Transferred from Loans Redeemed and Other Capital Receipts (see 24.2 above)	260 326 483
Fair value of Property, Plant and Equipment previously not recorded (see 24.4 above)	20 579 079
Backlog depreciation (see 24.5 above)	(184 442 597)
Total	<u>171 861 654</u>

25. CORRECTION OF ERROR

During the year transactions were made in respect of the previous year:

The comparative amount has been restated as follows:

Correction of capitalisation reserve	<u>2 822 091</u>	-
Net effect on accumulated surplus for the year	<u>2 822 091</u>	<u>-</u>

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R	2005 R
26. CASH GENERATED BY OPERATIONS		
Surplus for the year	25 796 026	24 848 569
Adjustment for:-		
Depreciation	19 458 053	16 026 885
Gain on disposal of property, plant and equipment	-	(80 000)
Non-operating income	6 663 562	120 350 823
Non-operating expenditure	(13 179 386)	(5 987 847)
Contribution to bad debt provision	(82 269 360)	(17 023 440)
Capital grants used to purchase property, plant and equipment	(9 347 661)	(19 485 294)
Offsetting of depreciation	14 709 886	8 884 598
Prior year adjustments	(85 001)	-
Transfer of water appropriation balances	14 982 060	-
Write off of VAT	25 047 338	-
Correction of error	2 822 091	-
Gamap adjustments	-	(86 186 016)
Contribution to Self Insurance Reserve	-	(597 854)
Insurance claims processed	-	649 997
Transfer to Housing Development Fund	-	(1 521 038)
Investment income	(4 910 065)	(7 768 610)
Interest paid	<u>1 273 939</u>	<u>2 874 957</u>
Operating surplus before working capital changes:	961 482	34 985 730
Decrease in inventories	229 917	1 701 925
Decrease/ (increase) in consumer and other debtors	64 714 053	(12 055 059)
Increase/ (decrease) in conditional grants and receipts	3 876 800	(1 851 694)
Decrease in creditors	(45 735 710)	(19 412 006)
Decrease in provisions	-	-
(Decrease)/ increase in VAT	<u>(18 333 220)</u>	<u>11 848 701</u>
Cash generated by operations	<u>5 713 322</u>	<u>15 217 597</u>

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position :

Bank balances and cash	<u>22 193 461</u>	<u>12 645 856</u>
Total cash and cash equivalents	<u>22 193 461</u>	<u>12 645 856</u>

NEWCASTLE MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R	R
UTILISATION OF LONG-TERM LIABILITIES		
28. RECONCILIATION		
Long-term liabilities (see Note 2)	31 718 700	15 567 455
Used to finance property, plant and equipment – at cost	<u>31 718 700</u>	<u>15 567 455</u>
Sub- total	-	-
Cash set aside for the repayment of long-term liabilities (see Note 2)	2 708 871	2 329 295
Cash invested for repayment of long-term liabilities	<u>2 708 871</u>	<u>2 329 295</u>
ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
29.1 Contributions to organized local government		
Opening balance	-	-
Council subscriptions	458 815	152 917
Amount paid - current year	(458 815)	(152 917)
Amount paid - previous years	-	-
Balance unpaid (included in creditors)	<u>-</u>	<u>-</u>
29.2 Audit fees		
Opening balance	-	89 777
Current year audit fee	858 770	495 240
Amount paid - current year	(858 770)	585 017
Balance unpaid (included in creditors)	<u>-</u>	<u>-</u>
29.3 VAT		
VAT inputs receivables and VAT outputs receivables are shown in note 7. All VAT returns have been submitted by the due date throughout the year.		
29.4 PAYE and UIF		
Opening balance	-	-
Current year payroll deductions	12 054 932	11 366 471
Amount paid - current year	(12 054 932)	(11 366 471)
Amount paid - previous years	-	-
Balance unpaid (included in creditors)	<u>-</u>	<u>-</u>

NEWCASTLE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R	2005 R
ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)		
29.5 Pension and Medical Aid Deductions		
Opening balance	-	-
Current year payroll deductions and Council Contributions	19 189 474	19 189 474
Amount paid - current year	(19 189 474)	(19 189 474)
Amount paid - previous years	-	-
Balance unpaid (included in creditors)	-	-

29.6 Councillor's arrear consumer accounts

Councillor's in arrears more than 90 days during 2005/2006 financial year

Name of Councillor	Account Number	Balance @ 30/06/2006 R
Khumalo B	6076929	827
Khumalo LM	5035114	1 312
Madonsela HS	5107135	4 805
Mncube VN	5029800	18 490
Mngomezulu DBK	5039527	23 700
Mwali PB	5065368	16 826
Ndlovu-Dube ZJ	7004989	406
Thungo TC	6137578	16 189
Zulu SJ	6147827	1 445

30. CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

- Approved and contracted for	11 183 240	-
Land and Buildings	-	-
Infrastructure	1 229 130	-
Community	2 830 910	-
Heritage	-	-
Other	7 123 200	-
 - Approved but not yet contracted for	 64 220 220	 159 833 480
Land and buildings	6 064 000	6 969 880
Infrastructure	40 576 220	43 443 150
Community	6 440 000	3 590 400
Heritage	1 220 000	-
Other	9 920 000	105 830 050
 Total	 75 403 460	 159 833 480

This expenditure will be financed from:

- External Loans	36 401 910	41 929 350
- Capital Replacement Reserve	-	-
- Government Grants	35 256 460	117 642 130
- District Council Grants	3 745 090	262 000
	75 403 460	159 833 480

NEWCASTLE MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

31. RETIREMENT BENEFIT INFORMATION

All councillors and employees belong to five pension funds, as follows:

Councillors: Defined contribution Retirement Fund administered by Pension Fund Services (Pty) Ltd.

- Employees:
- New employees join the defined contribution Provident Fund administered by KwaZulu-Natal Joint Pension Fund.
 - Employees employed prior to 1 July 2004 had the choice to join the defined contribution Provident Fund, defined benefit Superannuation Fund or the defined benefit Retirement Fund all of which are administered by KwaZulu-Natal Joint Pension Fund.
 - Employees transferred to the Municipality during 2001 belonging to the Government Employees Pension Fund were not compelled to resign and join any of the other pension funds. They remain as members of this fund until they leave the Municipality's service.

These funds are each subject to a triennial actuarial valuation which indicates that these funds are each in a sound financial position.

An amount of R11,1 million (2005: R10,6 million) was contributed by Council in respect of councillor and employee retirement funding. These contributions have been expensed.

32. CONTINGENT LIABILITY

32.1 Guarantees for staff housing loans with financial institutions: R 98 740 (2005: R116 540).

32.2 Several claims made against Council with regard to damages arising from accidents, etc. have been submitted to Council's insurers for payment thereof. There is no indication that the claims may result in legal claims against the Municipality.

33. CONTINGENT ASSET

Civil proceedings have commenced against an employee with regard to the theft of cash, over the period 1999 to 2006, to recover an amount of R2,7 million. Recovery of the amount is not certain as the financial investigation headed by the Asset Forfeiture Unit is still underway.

34. IN-KIND DONATIONS AND ASSISTANCE

The Municipality received the following in-kind donations and assistance:

- Secondment of International Financial Advisor by National Treasury for two years.
- Secondment of Advisor by the Department of Provincial and Local Government to manage the CMTP programme.
- Secondment of five Community Development Workers to be used as and when required by the Department of Provincial and Local Government.

35. EVENTS AFTER THE REPORTING DATE

An investigation in the latter part of August 2006 culminated in the Municipality laying a charge of fraud with the South African Police Services against one of the employees for the theft of cash amounting to R2,7 million. The Asset Forfeiture Unit is currently involved in the case in order to recover as much as possible from the employee.

36. COMPARISON WITH BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexure E(1) and E(2).

APPENDIX A
NEWCASTLE MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2006

EXTERNAL LOANS	Loan Number	Redeemable	Balance at 30/06/05	Received during the period	Redeemed written off during the period	Balance at 30/06/06
LONG-TERM LOANS			R	R	R	R
DBSA @ 9.26%	101965/1	2015/06/30	12 109 988	4 261 347	815 146	15 556 189
DBSA @ 9.10%	101965/2	2010/06/30	631 071	344 428	112 002	863 497
DBSA @ 9.31%	102322/1	2011/06/30	-	861 274	-	861 274
DBSA @ 9.40%	102322/2	2013/06/30	-	2 961 691	-	2 961 691
DBSA @ 9.45%	102322/3	2016/06/30	-	1 695 228	-	1 695 228
DBSA @ 9.37%	102322/4	2021/06/30	-	7 483 644	-	7 483 644
Total long-term loans			12 741 059	17 607 612	927 148	29 421 523
ANNUITY LOAN						
SA Eagle @ 7.75%	S16	2008/06/30	37 912	-	11 689	26 223
Sanlam @ 7.875%	S6	2008/12/31	27 761	-	10 569	17 192
Housing Development			274 031	-	274 031	-
Total annuity loans			339 704	-	296 289	43 415
LEASE LIABILITY						
Motor vehicles @ 9.5%			2 486 692	490 689	723 619	2 253 762
TOTAL EXTERNAL LOANS			15 567 455	18 098 301	1 947 056	31 718 700

APPENDIX B

NEWCASTLE MUNICIPALITY : ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2006

	Cost/Revaluation					Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Current year	Disposals	Closing Balance	
Land and Buildings										
Land	51 898 635	7 363 295	0	0	59 261 930	2 549 602	0	0	2 549 602	56 712 328
Buildings	30 384 389	13 552 144	0	0	43 936 533	11 345 319	1 829 111	0	13 174 430	30 762 104
	82 283 024	20 915 439	0	0	103 198 463	13 894 921	1 829 111	0	15 724 032	87 474 432
Infrastructure										
Airports	262 520	0	0	0	262 520	52 504	13 126	0	65 630	196 890
Roads	114 454 687	14 216 322	0	0	128 671 010	56 052 410	6 554 927	0	62 607 337	66 063 673
Electricity	52 498 337	1 163 105	0	0	53 661 442	32 776 343	2 223 317	0	34 999 660	18 661 782
Water	304 336	0	0	0	304 336	259 589	4 045	0	263 634	40 702
Sewerage	237 645	0	0	0	237 645	211 048	2 953	0	214 000	23 645
Service Connections	9 990 677	950 557	0	0	10 941 233	7 005 320	681 173	0	7 686 493	3 254 740
Reservoirs and Tanks	340	0	0	0	340	0	17	0	17	323
	177 748 542	16 329 984	0		194 078 526	96 357 213	9 479 557	0	105 836 771	88 241 755
Community Assets										
Security System	2 073 002	164 855	0	0	2 237 857	1 750 911	130 749	0	1 881 660	356 197
Dams	55 499	0	0	0	55 499	21 229	8 234	0	29 463	26 036
Libraries	2 621 336	0	0	0	2 621 336	1761 474	49 764	0	1 811 238	810 098
Parks and Gardens	425 673	0	0	0	425 673	224 538	16 348	0	240 886	184 787
Recreation Facilities	5 715 350	9 731	0	0	5 725 081	2 257 926	267 759	0	2 525 685	3 199 396
Cemeteries	664 383	21 391	0	0	685 774	206 864	38 932	0	245 796	439 979
Community Centres	11 863 573	0	0	(24 915)	11 838 657	3 414 247	536 603	0	3 950 850	7 887 807
	23 418 816	195 977	0	(24 915)	23 589 878	9 637 190	1 048 388	0	10 685 578	12 904 300
Heritage Assets										
Paintings and Art Galleries	257 820	0	0	0	257 820	0	0	0	0	257 820
Historical Buildings	84 737	0	0	0	84 737	0	0	0	0	84 737
Museums	16 511	0	0	0	16 511	0	0	0	0	16 511
	359 068	0	0	0	359 068	0	0	0	0	359 068

APPENDIX B (continued)

NEWCASTLE MUNICIPALITY : ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2006

	Cost					Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
Other Assets										
Buildings Other	0	0	0	0	0	0	0	0	0	0
Office Equipment	13 753 254	753 804	0	0	14 507 058	9 487 297	1 610 648	0	11 097 945	3 409 113
Motor Vehicles	20 830 914	2 706 858	0	0	23 537 772	12 175 783	1 991 568	0	14 167 350	9 370 422
Plant and Equipment	12 907 297	1 950 051	0	0	14 857 348	9 838 110	1 025 314	0	10 863 424	3 993 924
Furniture and Fittings	3 290 861	234 505	0	0	3 525 366	2 153 965	444 434	0	2 598 400	926 967
Bins and Containers	1 841 057	1 625 893	0	0	3 466 951	1 732 005	92 031	0	1 824 036	1 642 915
Emergency Equipment	1 429 144	0	0	0	1 429 144	1 066 967	149 534	0	1 216 501	212 643
Other	27 235 385	0	0	0	27 235 385	17 672 104	1 787 468	0	19 459 571	7 775 813
	81 287 912	7 271 111	0	0	88 559 023	54 126 230	7 100 997	0	61 227 227	27 331 796
Total	365 097 363	44 712 511	0	(24 915)	409 784 958	174 015 555	19 458 053	0	193 473 608	216 311 350

APPENDIX C

NEWCASTLE MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2006

	Cost					Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
Executive & Council	22 901 941	282 429	-	-	23 184 370	5 965 149	1 250 994	-	7 216 143	15 968 227
Finance & Admin	36 895 886	217 194	-	-	37 113 080	14 487 859	2 390 375	-	16 878 234	20 234 846
Planning & Development	33 259 474	5 232 695	-	-	38 492 169	7 007 242	1 198 099	-	8 205 341	30 286 828
Health	3 931 412	-	-	-	3 931 412	1 454 728	213 102	-	1 667 831	2 263 581
Community & Social Services	44 339 935	472 826	-	-	44 812 761	10 327 787	1 706 764	-	12 034 551	32 778 209
Housing	2 815 029	1 395 858	-	(24 915)	4 185 972	129 983	181 746	-	311 729	3 874 243
Public Safety	9 926 707	94 469	-	-	10 021 176	4 641 108	882 332	-	5 523 440	4 497 736
Sport & Recreation	14 083 280	7 647 977	-	-	21 731 257	10 150 334	1 038 722	-	11 189 056	10 542 202
Environmental Protection	184 402	-	-	-	184 402	66 417	27 851	-	94 267	90 134
Waste Water Management	923 068	-	-	-	923 068	408 366	38 811	-	447 176	475 892
Waste Management	14 599 503	5 277 113	-	-	19 876 616	9 768 146	1 278 083	-	11 046 229	8 830 387
Road Transport	99 075 073	16 379 750	-	-	115 454 823	51 156 138	5 390 937	-	56 547 076	58 907 748
Water	475 630	-	-	-	475 630	350 833	48 142	-	398 975	76 655
Electricity	68 705 926	2 310 050	-	-	71 015 975	49 340 821	3 109 278	-	52 450 099	18 565 876
Other	12 980 096	5 402 150	-	-	18 382 246	8 760 644	702 817	-	9 463 461	8 918 784
TOTAL	365 097 363	44 712 511	-	(24 915)	409 784 958	174 015 555	19 458 053	-	193 473 608	216 311 350

APPENDIX D

NEWCASTLE MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED

30 JUNE 2006

2005 Actual Income	2005 Actual Expenditure	2005 Surplus/ (Deficit)		2006 Actual Income	2006 Actual Expenditure	2006 Surplus/ (Deficit)
R	R	R		R	R	R
115 905 566	45 041 068	70 864 498	Executive & Council	157 852 195	66 853 572	90 998 623
4 036 348	23 386 914	(19 350 566)	Finance & Admin	10 814 229	20 376 898	(9 562 669)
837 688	9 028 554	(8 190 866)	Planning & Development	5 237 309	9 971 958	(4 734 649)
1 744 300	2 900 988	(1 156 688)	Health	(497 110)	3 483 358	(3 980 468)
1 849 370	11 060 995	(9 211 625)	Community & Social Services	1 556 050	9 876 876	(8 320 826)
1 792 706	4 976 104	(3 183 398)	Housing	973 406	5 680 502	(4 707 096)
3 508 908	16 272 631	(12 763 723)	Public Safety	2 415 778	17 810 830	(15 395 052)
578 730	11 295 429	(10 716 699)	Sport & Recreation	214 340	13 441 536	(13 227 196)
455	8 331	(7 876)	Environmental Protection	15	112 038	(112 023)
332 552	1 233 557	(901 005)	Waste Water Management	4 830 244	1 189 504	3 640 740
44 473 179	42 727 864	1 745 315	Waste Management	45 288 203	37 174 907	8 113 297
1 085 785	21 601 364	(20 515 579)	Road Transport	25 327	24 227 951	(24 202 624)
-	242 046	(242 046)	Water	52 904 196	66 239 756	(13 335 561)
140 679 910	126 271 611	14 408 299	Electricity	150 590 535	129 235 548	21 354 987
365 814	1 418 066	(1 052 252)	Other Restated Gamap adjustments	1 713 378	2 446 833	(733 455)
28 884 913	3 762 133	25 122 780		-	-	-
346 076 224	321 227 655	24 848 569	Total	433 918 094	408 122 068	25 796 026

APPENDIX E(1)

NEWCASTLE MUNICIPALITY: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2006

REVENUE	2006	2006	2006	2006	Explanation of Significant Variances
	Actual (R)	Budget (R)	Variance (R)	Variance (%)	
Property rates	112 866 169	111 604 950	1 261 219	1	
Property rates - penalties imposed and collection charges	2 176 003	2 064 770	111 233	5	
Service charges	195 991 035	190 260 401	5 730 634	3	
Service charges - other	2 183 418	2 108 970	74 448	4	
Rental of facilities and equipment	2 883 462	3 118 930	(235 468)	-8	
Interest earned - external investments	4 211 146	3 030 050	1 181 096	39	Budget prepared in terms of IMFO where interest is allocated to the CLF. With conversion to Gamap/Grap all interest was allocated to the operating statement.
Interest earned - outstanding debtors	698 919	659 890	39 029	6	
Fines	3 643 164	3 152 210	490 954	16	Effective law enforcement with regard to Parking Services.
Licences and permits	167 978	165 036	2 942	2	
Income from agency services	6 547 207	6 550 340	(3 133)	0	
Government grants and subsidies	99 721 648	78 735 960	20 985 688	27	Grants received were not budgeted for as revenue
Other income	2 827 945	1 680 530	1 147 415	68	Additional revenue from law enforcement with regard to parking services and interest received from SARS not budgeted for.
Gains on disposal of property, plant and equipment	0	0	0	0	
Total Revenue	433 918 094	403 132 037	30 786 057	8	
EXPENDITURE					
Executive & Council	66 853 572	67 476 342	(622 770)	-1	
Finance & Admin	20 376 898	16 415 242	3 961 656	24	Reversal of landsales not budgeted for
Planning & Development	9 971 958	10 685 896	(713 938)	-7	
Health	3 483 358	3 519 408	(36 050)	-1	
Community & Social Services	9 876 876	14 553 172	(4 676 296)	-32	Savings made on salaries, consultants fees and expenses relating to services accordingly not rendered.
Housing	5 680 502	5 717 890	(37 388)	-1	
Public Safety	17 810 830	17 538 906	271 924	2	
Sport & Recreation	13 441 536	13 214 023	227 513	2	
Environmental Protection	112 038	80 257	31 781	40	Salaries and related staff costs budgeted elsewhere
Waste Water Management	1 189 504	999 270	190 234	19	Salaries and related staff costs budgeted elsewhere
Waste Management	37 174 907	42 517 330	(5 342 423)	-13	Salaries and staff related costs budgeted elsewhere
Road Transport	24 227 951	24 364 840	(136 889)	-1	
Water	66 239 756	60 078 638	6 161 118	10	
Electricity	129 235 548	132 060 957	(2 825 409)	-2	
Other	2 446 833	0	2 446 833	100	
Total Expenditure	408 122 068	409 222 171	(1 100 103)	0	
NET SURPLUS/(DEFICIT) FOR THE YEAR	25 796 026	(6 090 134)			

APPENDIX E(2)

NEWCASTLE MUNICIPALITY: ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2006

	2006 <u>Actual</u>	2006 <u>Under</u> Construction	2006 <u>Total</u> Additions	2006 <u>Budget</u>	2006 <u>Variance</u>	2006 <u>Variance</u>	Explanation of Significant Variances greater than 5% versus Budget
	R	R	R	R	R	%	
Executive & Council	282 429	-	282 429	113 000	169 429	150	Additional equipment purchased
Finance & Admin	217 194	-	217 194	125 000	92 194	74	Assets purchased not budgeted for
Planning & Development	5 232 695	-	5 232 695	8 550 000	(3 317 305)	-39	Expenditure still to be incurred
Health	-	-	-	-	-	0	
Community & Social Services	472 826	-	472 826	2 590 400	(2 117 574)	-82	Delay in obtaining approval
Housing	1 395 858	-	1 395 858	93 219 130	(91 823 272)	-99	Delays in waiting for approval
Public Safety	94 469	-	94 469	-	94 469	100	Misallocation of expenditure
Sport & Recreation	7 647 977	-	7 647 977	1 485 000	6 162 977	415	Misallocation of expenditure
Environmental Protection	-	-	-	-	-	0	
Waste Water Management	-	-	-	20 000 000	(20 000 000)	-100	Still to be approved
Waste Management	5 277 113	-	5 277 113	13 107 800	(7 830 687)	-60	Awaiting approval
Road Transport	16 379 750	-	16 379 750	13 796 150	2 583 600	19	Increase in costs
Water	-	-	-	4 247 000	(4 247 000)	-100	Water meters not installed
Electricity	2 310 050	-	2 310 050	2 600 000	(289 950)	-11	Ongoing projects which will continue in the next year
Other	5 402 150	-	5 402 150	-	5 402 150	100	Amounts budgeted elsewhere
TOTAL	44 712 511	-	44 712 511	159 833 480	(115 120 969)	-72	